

From: jdrake@peoplesbanktexas.com
To: [Director - FASB](#)
Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"
Date: Friday, September 17, 2010 12:59:26 PM

Jon Drake
5820 82nd St.
Lubbock, TX 79424-3617

September 17, 2010

Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

As EVP/CFO of Peoples Bank, a banking institution in Lubbock, Texas with approximately \$250 million in total assets, I am writing to express my opinions on specific provisions of the exposure draft.

I. COMMENTS ON FAIR VALUE

I am strongly opposed to the portion of the proposal that requires all financial instruments - including loans - to be reported at fair value (market value) on the balance sheet.

Our bank does not sell our commercial loans to a secondary market. In fact, any loan sales are generally as a participation to another community bank for overline lending purposes. In these cases, we retain a majority of the loan on our books and handle the relationship with the customer, while providing servicing to the participating bank. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case.

As a community bank, if there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan. Moreover, there is no active market for many of our loans, and estimating a market value makes no real sense. I question the time, effort and ability of most all community banks to come up with systems, programs or processes that would accurately estimate a market value for a loan, particularly one that is not a candidate for a secondary market. Most community banks do not have the systems or personnel to be able to do this with the accuracy that this proposal assumes will result in a market value. Coupled with other regulatory changes/burdens, this proposal represents just another added cost of operating a bank now and in the future.

On another front, marking all loans to market would cause our bank's

capital to sway with fluctuations in the markets - even if the entire loan portfolio is performing. Instead of providing better information about our bank's health or its ability to pay dividends, the proposal would mask it.

Finally, and as stated above, the costs and resources that we will need to comply with this new requirement would be significant. This will require us to pay consultants and auditors to estimate market value, which will not drive any different decisions by management or investors of our bank.

II. COMMENTS ON LOAN IMPAIRMENT

I have serious concerns about efforts to revise the methodology to estimate loan loss provisions and how such changes can be implemented by banks like mine. Loan loss provisions and the loan loss reserve process itself is highly subjective and relies on an assessment of a myriad of facts. Through compliance with FAS 114 and FAS 5, we attempt to capture those inherent risks within our loan portfolio. However, adding yet one more FAS pronouncement to account for "expected losses", both in loans and debt securities, introduces even more subjectivity to the process.

As demonstrated by the recent revelations of "unintended consequences" of Congress' rush to implement new regulations, I highly recommend that any final model be tested by banks my size in order to ensure that any model is solid and workable. It is also very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing any rules.

I do not support the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis. This will keep our books in line with what our borrowers believe they owe and what we contractually/legally pursue with them and not have to keep separate accounting records.

Changing the way interest income is recorded to the proposed method makes the accounting more confusing and subjects otherwise firm data to the volatility that comes naturally from the provisioning process. I recommend maintaining the current method.

Sincerely,

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EVP & CFO
Peoples Bank